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**UNDER PUBLIC PRESENTATIONS**

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TO HAVE AN ITEM PLACED ON THE CITY COUNCIL AGENDA, PLEASE SUBMIT A **WRITTEN PETITION** TO THE CITY CLERK'S OFFICE. WRITTEN PETITIONS ARE GENERALLY CONSIDERED BY THE CITY COUNCIL TWO WEEKS AFTER SUBMITTAL.

**TO: CITY COUNCIL - City of Santa Clara**

**FROM: Name:** ERLINDA ANNE ESTRADA

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**City:** SANTA CLARA **Telephone:\*** 408 230-0675 (cell)

**SUBJECT MATTER:** (Briefly state the contents of the matter to be presented to the Council.)

Summary of a report I wrote: "A  
Citizen's Perspective: Should the San Francisco  
49ers and the City of Santa Clara  
Collaborate on the Building of a new Sports  
Stadium."

**Signed:** Erlinda Estrada

**Date:** 5-22-07

**\*NOTE:** This is a public document. If your telephone number is unlisted or if you do not want it to be public, please provide an alternate number where you can be reached.

## **A Citizen's Perspective: Should the San Francisco 49ers and the City of Santa Clara Collaborate on the Building of a New Sports Stadium?**

by

Erlinda Anne Estrada, M.L.I.S.

### **Summary:**

I am a research librarian. I recently retired as the Interim Library Director at Mission College. As a librarian and instructor at Mission College, Foothill College, San Jose State University's Graduate School of Library and Information Science, and at UC Berkeley Extension, I've taught hundreds, perhaps thousands, of students and the general public to find, critically evaluate and use information. And so I put my research skills to work on this issue.

After studying the San Francisco 49ers Financing Proposal and after doing an extensive literature review of stadium financing and the economic impacts of a new stadium on a community, my conclusion is that it is not in the best interests of the City of Santa Clara nor its citizens to support the building of a San Francisco 49ers Stadium in Santa Clara. The reasons are as follows:

- The revenue stream in the Financing Proposal presented to the Santa Clara City Council is vague. In fact, the revenues quoted in the Financing Proposal indicate gross revenues, not net revenues. The true contribution, or public subsidy, by the City of Santa Clara to this project is far greater than the \$160 million outlined in the 49ers proposal. For example, the proposal does not consider the value of the land on which the stadium is to be built and alternative revenue-generating uses for that land. It does not consider ongoing operating costs for the stadium.
- Research by experts on economics and public policy concur that the benefits provided by such a stadium to a community are often inaccurate and unrealistic. For example, the great majority of the jobs that the stadium creates will be part-time, sporadic, temporary, low-wage, non-union jobs, not the type of jobs that this city needs.
- The timetable imposed by the 49er organization for a decision by the City on whether or not to build the stadium is unrealistic and unworkable.
- The \$160 million and bonds could be used for other projects that would enhance the quality of life for all the citizens of Santa Clara, not just the 49ers fans.

This city is already deferring projects of benefit to the entire city because there is not enough money available. Yet the city is willing to consider spending untold millions of dollars on a stadium.

From my perspective, there are higher, more pressing priorities for our community than spending public funds and using public lands for a stadium with questionable returns.

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## **A Citizen's Perspective: Should the San Francisco 49ers and the City of Santa Clara Collaborate on the Building of a New Sports Stadium?**

By

Erlinda Anne Estrada, M.L.I.S.

I am a Santa Clara native. My family has over two hundred years of history here and in the surrounding area. I recently retired as the Interim Library Director at Mission College. I was also a faculty librarian there for many years. I've been an instructor at Foothill College in their Library Technology program, at San Jose State University's Graduate School of Library and Information Science, and at UC Berkeley Extension. I have taught hundreds of students and the public how to find, evaluate, and use information.

After carefully studying the San Francisco 49ers Financing Proposal and after doing an extensive literature review of stadium financing and the economic impacts of a new stadium on a community, my conclusion is that it is not in the best interests of the City of Santa Clara nor its citizens to support the building of a San Francisco 49ers Stadium in Santa Clara. The reasons are as follows:

- The revenue stream in the Financing Proposal ("Study Session-April 24, 2007") presented to the Santa Clara City Council is vague and deceptive. The true contribution, or public subsidy, by the City of Santa Clara to this project is far greater than the \$160 million outlined in the 49ers proposal.
- Research by experts on economics and public policy concur that the benefits provided by such a stadium to a community are often inaccurate and unrealistic.
- The timetable imposed by the 49er organization for a decision by the City on whether or not to build the stadium is unrealistic and unworkable.
- The \$160 million and bonds could be used for other revenue-producing projects that would enhance the quality of life for all the citizens of Santa Clara, not just the 49ers fans.

### **Financing Proposal:**

The Financing Proposal by the 49ers organization as presented to the Santa Clara City Council and the public in a PowerPoint presentation on April 24, 2007 ("Study Session") is vague and deceptive.

Their "Recap of Other Stadium Events" is purely speculative. There are also no projected revenues indicated for any of these events.

The number of events that the stadium can attract is partly dependant on whether or not Oakland A's owner Lew Wolff builds a new soccer stadium nearby in San Jose and a new mega-stadium complex in Fremont. Santa Clara would be in direct competition with these venues, as well as with HP Pavilion, for concerts and other events.

According to an article by Bob Young in the *Seattle Times*, *Pollstar*, a publication that tracks the concert industry, "reported that half of the top-grossing concert tours of 2004 had audiences of 2,501 to 7,500." *Pollstar's* Editor-in-Chief Gary Bongiovanni said, "There seems to be a decreasing number of acts capable of selling out a major arena." Major concert revenue, therefore, is less likely.

A large stadium like the 49ers plan to build would be inappropriate for regular soccer games. Major League Soccer is pushing for smaller, dedicated stadiums for their teams. The Seattle Sounders general manager Adrian Hanauer, speaking of Qwest Field, a football stadium, said "There are benefits to a smaller venues.... As MLS has more and more success, they lean more and more toward soccer-specific stadiums" (Massey).

Rutger's University professor Judith Grant Long concludes that the "revenue stream will vary depending on the facility type (arenas book more non-major league events than stadiums), the local demand for events, and the local supply of public assembly facilities, and may vary substantially from year to year." These are not revenues the city can count on.

The chart on "Stadium Costs and Funding Sources" ("Study Session-April 24, 2007") is incomplete. The Stadium Authority's expenses show event costs for game days but not overall costs for other possible events. This would admittedly be difficult to determine because other possible events are purely speculative; it's unclear how much the stadium will be used outside of 49ers games.

The chart also does not include debt service costs.

And, finally, it shows "Gross Revenues for Distribution" not net revenues. How can the City know whether this is a good deal or not without an estimation of the net revenues? "Critics argue that at best the multipliers used in prospective impact studies overstate the contribution that professional sports make to an area's economy because they fail to differentiate between net and gross spending..." (Coates and Humphreys)."

In the chart "The Formation of Santa Clara Stadium Authority" it shows that the City of Santa Clara "Contributes Land and Other Assets to SCSA."

Upon close inspection it is apparent that the City of Santa Clara's true contribution, or public subsidy, to this project is far greater than the \$160 million outlined in the 49ers proposal. In fact, it's 57.4% of the financing and operation of the stadium, or \$820 million.

In addition, approximately \$20 million will be needed to relocate/reconfigure an electrical substation; the City will need to relocate a parking garage structure slated to be built on the property where the stadium is to be located; and there will be additional costs for reconfiguring parking for Great America theme park. Total costs of these projects are currently unknown, but are substantial.

Therefore, the City will be responsible for contributing at least \$840 million toward this project. And that does not even count the value of the land on which the stadium is to be built. According to R. A. Baade's study, "Evaluating Subsidies For Professional Sports in the United States," on average the public pays for 74% of the cost to finance a new NFL facility. This could happen here.

"Stadium Authority Project Funding" is described as "Naming Rights, Corporate Founding Partners, Ticket Tax financing, Stadium Builders Licenses, Concessionaire Equity, Pouring Rights, etc." The amount of revenue estimated for each of funding sources is not itemized, so it's unclear how realistic these estimates are.

According to the *San Jose Mercury News* (Patel), these revenues may not ever be disclosed to the public under a confidentiality agreement recently signed between Stadium LLC (the 49ers organization) and the City of Santa Clara. All Stadium LLC has to do is stamp "Confidential Information" on any documents that they don't want to be disclosed ("Non-Disclosure and Confidentiality Agreement"). Why should such information be kept confidential from the public?

The 49ers organization boasted that it will upgrade the stadium every five to seven years. But if one examines the source of funding for these upgrades, the money comes from the Gross Cash flow distribution through the Stadium Authority: the "First \$1 million is reserved for future capital expenses of the stadium." This eats into any profits that the City of Santa Clara might realize.

This plan assumes that the Stadium Authority will incur bond debt in order to finance its share of the project. Stadium LLC said that most likely these bonds could be paid back over a 25 year period using ticket taxes to help pay down the bonds.

But what if the 49ers organization decides after a few years that playing at Santa Clara is no longer profitable, or if they receive a sweeter deal from some other city? The team will be gone and Santa Clara will be stuck with a stadium without a team. Oakland and San Francisco are good local examples of this.

According to *Baltimore Sun* reporter Jon Morgan in his book *Glory for sale: Fans, dollars, and the new NFL*, the major factor behind the move of NFL franchises from city to city is stadium economics, which has replaced fan allegiance and municipal loyalty as the basis for their decisions (Hoffman).

As *Seattle Post-Intelligencer* reporter Gregory Roberts said in 2006:

Unlike the Dallas Cowboys, the Seattle Seahawks have never been known as America's Team.

But they are the taxpayers' team.

So, for that matter, are the Pittsburgh Steelers, the Seahawks' opponent Sunday in Super Bowl XL.

And so are most of America's professional sports teams, as an industry of billionaire owners and millionaire performers follows a well-worn script for shaking loose public money for hugely expensive stadiums: Threaten to abandon the team's longtime home, or entertain offers from other cities eager to build the team a new one -- or do both.

What if the anticipated revenues don't pan out? As Baade says, "Someone has to compensate for the revenue shortfalls when tax-exempt municipal bonds are used to fund new stadium projects". It happens often. A recent example is Seattle's Key Arena. "The city agreed that if some of the stadium revenues devoted to bonds weren't adequate the city would make up for it. That has happened for several years," according to *Tacoma News-Tribune* reporter Peter Callahan.

It was stated on May 1, 2007, during a review of the City of Santa Clara Redevelopment Agency's *Tax Increment Study*, that bonds have a "priority lien"; that is, bond obligations must be paid first over all other city needs. If the revenues from the stadium fall short, therefore, the bond obligations will have to be paid from the city's General Fund (Estrada).

According to Long, "It is a myth that sports facilities' operating revenues repay construction debt. In reality, operating revenues are almost completely offset by significant ongoing public expenses that are obscured in complex lease agreements."

Long concludes "the average public subsidy for a National Football League (NFL) stadium is underreported by \$41 million." Can we believe Stadium LLC's numbers?

### **Benefits?**

I reviewed many studies published in reputable journals and written by experts. All questioned the notion that a new sports stadium provides economic benefits to the community in which it's located. Most concur that the economic benefits are often marginal or non-existent compared to the outlay of public monies and other contributions like land that are needed to fund the stadium. Though some civic leaders in Santa Clara have said at council meetings that we should ignore what "the professors" say, I think this would be foolish.

According to Baade:

Those who advocate public subsidies for stadiums assert that the outlay should be treated as an investment and not an expense. Rather than forcing painful civic trade-offs, boosters claim that the indirect economic activity induced by stadiums is substantial enough to help finance other public projects. Scholars almost unanimously dismiss such claims...owing largely to the fact that a new facility only realigns entertainment spending....Even if a new team is adopted, the evidence indicates that the introduction of professional sports to a community does little beyond redirecting entertainment spending.

Coates and Humphreys, in their article "The Stadium Gambit and Local Economic Development," point out that:

There are strong reasons to doubt the accuracy of the estimated benefits claimed by economic impact studies.....These studies ask the question: what will happen if a new franchise and stadium enter this community? The results invariably reflect the desires of those who commission them, and advocates of stadiums and franchises typically produce impact studies that find large economic impacts, translated as benefits, from building a stadium or enticing a team to enter the city.

Their study goes on to state that "professional sports may actually be a drain on local economies rather than an engine of economic growth,"

In a recent article about testimony before Congress regarding stadium financing, reporter Charles Pope from the *Seattle Post-Intelligencer* said:

The battle over public financing for new stadiums for the [Seattle] Sonics and other professional teams spilled onto Capitol Hill ... with critics insisting the practice is little more than an economic flagrant foul that usually benefits team owners rather than cities.

"Sports facilities are, on a dollar-for-dollar basis, among the worst investments that cities and states can make," analyst and author Neil deMause told the House Oversight and Government Reform Subcommittee.

DeMause's skeptical views dominated the hearing as other witnesses and lawmakers recounted examples of large public expenditures for professional teams failing to generate the number of jobs and public benefit that supporters claimed.

Many studies also point out that:

People have only so much money to spend on entertainment. The entertainment money that they spend at the stadium will be money that they won't spend elsewhere in the community. (Zimbalist, Asselin) If the stadium provides for all the patrons' needs (like food, parking, entertainment), little money might be spent outside the stadium and, therefore, local businesses may not benefit.

The main source of net spending is out-of-town visitors. "This number is usually small for professional sports teams (Zimbalist)." But if, as the 49ers and their boosters have claimed, most of their fans are from the south bay area, then they won't be spending their money on hotels, they won't be vacationing in Santa Clara, only visiting, and their spending will be limited to food, tickets, and parking. Conventioneers and business travelers would have been here anyway, so hotel revenues wouldn't necessarily increase because of the stadium.

The team owners and players won't be contributing to Santa Clara's economy because they don't live here (Zimbalist).

The great majority of the jobs stadiums create are part-time, sporadic, temporary, low-wage, non-union jobs, not the type of jobs that this city needs (Asselin). Will the part-time employees at least be guaranteed a living wage, which is currently \$12.86 per hour according to the City of San Jose? The Jobs Hotline at HP Pavilion in San Jose (accessed by phone 21 May 2007) states that their part-time employees average \$9.64 per hour, 10-15 hours per week *when events are scheduled*.

Qwest Field in Seattle was recently picketed by local union workers because the majority of jobs there were non-union and filled by non-residents.

Long (2005) concludes that "If governments and taxpayers understood the real cost of public subsidies for major league sports facilities, they could make better investment decisions."

### **Unrealistic Timetable**

My father worked in the automobile industry his whole life. He taught me to a) never date a car salesman and b) never purchase anything if the salesperson pressures you by setting an unrealistic deadline on the sales price.

I'm reminded of his wise advice because Stadium LLC says they must have a decision about the stadium deal with the city by July. That deadline does not provide sufficient time for the city to thoroughly study the stadium proposal. It also means that the issue cannot be brought before the voters of the city of Santa Clara so that the Mayor and Council can know the true feelings of their constituents. This is a common tactic, as Zimbalist notes:

To the extent that a new stadium (a) is a central element of an urban redevelopment plan and its location and attributes are carefully set out to maximize synergies with local business and (b) the terms of its lease are not negotiated under duress and are fair to the city, then the city may derive some modest economic benefit from a sports team. The problem, however, is that these two conditions rarely apply when dealing with monopoly sports leagues. Cities are forced to act hastily under pressure and to bargain without any leverage.

Mayors, under pressure...and cajoled by local contractors, unions, lawyers, hotel, restaurant and real estate interests, among other political powers, tend to look favorably upon new stadium construction. They invoke images of city grandeur and new corporate headquarters moving to town. While it is conceivable that some cities are on the threshold of recognition and a sports team could lift them over the hump, such an effect is highly speculative and there is no case where it has actually taken hold in a significant way. (Zimbalist)

This is especially true because the San Francisco 49ers will not change their name and the stadium name will go to the highest bidder. How will the City of Santa Clara be recognized as the stadium owner? Where's the glory and name recognition for us?

#### **Other uses for the money**

To measure the true benefits of a new stadium, the apparent economic benefits must be reduced by the benefits that would have been produced by alternative uses of the same capital and land (Asselin).

At the May 8, 2007 City Council meeting, the Capital Improvement Budget was reviewed. \$63 million worth of projects were deferred because of lack of funding. \$57 million of the \$63 million remained *unfunded*, including monies to renovate the International Swim Center and \$10 million for a radio system to be used in the event of an emergency.

Contingency reserves for capital projects will diminish from a current balance of \$6.9 million to a mere \$1.4 million by June 30, 2008. These reserves have never before dropped below \$5 million and were, at one time, as much as \$30 million. As a former budget administrator I understand the need to keep sufficient contingency reserves on hand because the unexpected does happen. \$1.4 million is simply insufficient.

#### **Conclusion**

The city has to defer projects of benefit to the entire city because there is not enough money available. Yet the city is willing to consider spending untold millions of dollars on a stadium.

From my perspective, there are higher, more pressing priorities for our community than spending public funds and using public lands for a stadium with questionable returns.



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